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SUBJECT: AMBASSADOR MEETS WITH MONTEK SINGH AHLUWALIA

¶1. (C) Summary. Ambassador met with Planning Commission Deputy Chairman Montek Singh Ahluwalia on September 2 to discuss upcoming high level bilateral meetings, including the President-Prime Minister meeting on September 25 and the CEO Forum scheduled for October 14. In addition, the Ambassador provided an update to Ahluwalia on the August 22-23 Nuclear Suppliers Group meeting in Vienna and his outlook for the second meeting scheduled for September 4-5. End summary.

AMBASSADOR REVIEWS NSG DEVELOPMENTS

¶2. (C) First, Ambassador Mulford provided Ahluwalia an update on events at the August 21-22 Nuclear Suppliers Group (NSG) Plenary in Vienna. The Ambassador expressed disappointment and shock at the positions that many of the NSG members took. USG officials had engaged with the NSG members in the lead-up to the Plenary and the members had signaled that they were "supportive" but had "concerns." The Ambassador then noted that NSG members submitted over 60 amendments in the Vienna meeting to the draft NSG exception that the U.S. had submitted. Ambassador Mulford observed that the surprising number of substantial amendments nearly amounted to a question of good faith, with key NSG members' non-proliferation advocates allowed the upper hand.

¶3. (C) The Ambassador described to Ahluwalia how the meeting in Vienna had 400 people) minus the Indian delegation that had to remain outside) with all the chairs facing forward toward the Chairman's desk, in a configuration that discouraged debate and enabled NSG members to offer tough amendments semi-anonymously. Ambassador Mulford also explained to Ahluwalia that in the briefing with the Indian delegation) primarily Foreign Secretary Meno and Special Envoy Shyan Saran) during a scheduled break in the NSG Plenary, the Indian side solicited questions from the NSG members. None were offered. US representative John Rood also encouraged the participants to utilize the opportunity to ask questions of the Indian delegation, but no one did.

Looking Forward

¶4. (C) The Ambassador then considered the next steps. He noted that India and the US have negotiated a "clean" text, but that he anticipates it will be an extremely hard sell in the next NSG meeting in Vienna on September 4-5. Ambassador Mulford assured Ahluwalia that the US goal was to try to keep the text "sacrosanct," with NSG member concerns limited to comments in the Chairman's Summary. The Ambassador identified several text changes that he thought would be

unacceptable: the "multilateralization" of the Hyde Act, and any language that demanded automatic sanctions in response to further nuclear testing. Whether it would be possible to avoid such language, Mulford didn't know.

¶5. (C) Secretary Rice had asked the Ambassador to stay in Delhi during the September 4-5 Vienna Plenary to engage the GoI if needed. Mulford noted that National Security Advisor Narayanan had spoken with him that day and was not happy to learn that the Ambassador would not be in Vienna to help move the deal through. Mulford observed that one of the problems with the NSG meetings was the representational mode)- that NSG members had designated their non-proliferation advocates as participants at the Plenary rather than senior political representatives who could see the big picture at stake. The big issue for the NSG was whether the international nonproliferation system would be stronger with India on the inside. The US delegation on September 4-5 would be led by State Department Under Secretary for Political Affairs Bill Burns, which added weight to the meeting.

¶6. (C) Ambassador Mulford apprised Ahluwalia of his discussions with the "Group of Six" like-minded country members of the NSG) Austria, Ireland, New Zealand, Netherlands, Norway and Switzerland) as well as with Canada and Japan. The Ambassador explained that they needed to realize the importance of the NSG exception to India. The Ambassador had pointed out to them that any country that blocks the NSG waiver should understand that its relationship with India would not be able to meet its maximum potential as India was likely to start a blame game, should the NSG

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exception not go through. Ahluwalia agreed that political pressure was needed to keep the focus on the big picture. To that end, Ambassador Mulford pointed out, President Bush and Secretary Rice were making calls to the leadership of these countries; however, the non-proliferation issues were often emotive for some countries. Some of the NSG representatives in Vienna had never been to India and had an outdated view of the country and the world today.

¶7. (C) Mulford pointed to the substantial reductions in carbon-based emissions that would result from India's access to nuclear energy made possible by the civil nuclear initiative. The Ambassador referenced an estimate that the amount of coal substituted with nuclear energy in India over the next twenty years was equivalent to half the amount of emissions from the state of California and more than all of the EU25 emission cuts combined (Note: according to a study by David Victor published by the Council on Foreign Relations, July 18, 2006. End note). Ahluwalia responded that India's lead nuclear scientist, Department of Atomic Energy Chairman Dr. Anil Kakodkar, had projected that by 2050 India's access to uranium through the civil nuclear cooperation initiative would treble the amount of uranium India could process and use toward nuclear energy, going from the equivalent of 200,000 MW of power to 600,000 MW of power. But, Ahluwalia questioned, do the nonproliferation people care? The Ambassador responded that they apparently did not, since they went so far as to request that the statements in the NSG waiver text referring to the energy benefits of the deal be removed.

¶8. (C) Ahluwalia opined that keeping the language on energy benefits in the text was useful, if not to the NSG members, then to a larger audience that would consider the text. The Ambassador concurred, noting that it was important to get the text through the NSG quickly so that the bilateral deal could move not just to Congress but also to President Bush for needed presidential determinations. These determinations were one-time requirements that did not need to be repeated in a new administration.

UPCOMING PRESIDENT-PRIME MINISTER MEETING

¶9. (C) Ambassador Mulford moved to the topic of the scheduled September 25 meeting between President Bush and Prime Minister Singh in Washington. He asked Ahluwalia what issues he thought the two leaders should discuss, noting that the President was interested to know the latest on the government's reform impulse that it indicated after winning the confidence vote in Parliament in July. Ahluwalia started with a longer-term observation: that the government's decision to part ways with the Left was decided on the issue of the Indo-US civil nuclear deal, but that the parting of ways was done with the sense of it being a longer, durable split. In the short-term, Ahluwalia continued, there is still the question of whether any legislative reforms can be done before elections. He thought the most that could be done would be to introduce the insurance amendment legislation that raises the cap on foreign direct investment (FDI) from 26% to 49% and to pass the pending banking amendment act that removes the limit on voting rights of shareholders. Ahluwalia opined that introducing the insurance legislation would be the government's signal of its commitment to reform. He thought the banking amendment should go through, but it mostly depends on whether the BJP signals its support, because otherwise, the government is unlikely to be able to amass enough of its new supporters to vote for the bill.

¶10. (C) The Deputy Chairman also pointed to non-legislative reforms as being very possible. He suggested that Commerce Minister Kamal Nath could do more on investment (Note: The Commerce Ministry has the lead on the government's FDI policy that designates most FDI caps in the country not controlled by existing legislation. End note.) Ahluwalia also looked to the Banking Roadmap which is supposed to be revisited by the government and the central bank, the RBI, in 2009. He thought a new roadmap that opened India's banking sector to more foreign participation would not be issued until after national elections next year. He noted that the currently scheduled October-November parliamentary session was not very

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long, and that after that, there was not likely to be a substantive session until after elections. He opined that since the deadline for a new Parliament to be in session was May 2009, that elections would have to be held by March. However, he noted, the election schedule would have to work around key school exams during that part of the year.

¶11. (C) Returning to the scope of possible reforms, Ahluwalia reiterated that the Finance Minister wants to get the banking bill through and that on non-legislative side, improving the investment environment through "debugging" the "creaking machinery" of the bureaucracy would be an important reform. The Ambassador supported the idea, noting that several American companies, most recently Oshkosh and Sikorsky, had been disqualified from bids just shortly before the bids were to be opened, raising questions of transparency. Ahluwalia admitted that he had not heard of these companies' situation. Ambassador Mulford suggested the issue could be an agenda item for the October 14 CEO Forum. Addressing the issue of questionable disqualifications would help improve the business investment image of India. Ahluwalia agreed, stressing that transparency was very important. However, he countered, he has seen instances where foreign companies were properly disqualified on a technicality that they knew of, yet failed to communicate circumstances properly. Even so, the Ambassador said, it would be a good idea not to have disqualifications occur just 1-2 days before the opening of bids.

EDUCATION FOCUS AT CEO FORUM

¶12. (SBU) The Ambassador next suggested that education collaboration might be a good agenda focus at the CEO Forum, to which Ahluwalia agreed emphatically. Ambassador Mulford

asked about the possibility of commercial and military offsets being used for investments in India's education sector. Ahluwalia expressed the view that commercial offsets -- mostly generated from aviation purchases -- were a more likely source of revenue for higher education investments, because the Ministry of Defense is likely to use defense procurement offsets with its captive, protected state interests.

¶13. (SBU) Ahluwalia indicated that the Indian side is "keen" to step up its educational dialogue with the United States and may wish to have it included in the joint statement between the President and the Prime Minister at their meeting in late September. He went on to suggest that, at the October 14 CEO Forum, the CEOs could "sanctify" a plan to move forward on education collaboration. He explained that he has been reaching out to Indian CEOs and to prominent Indians in the US, asking for suggestions for cooperation between Indian and American universities. He was trying to get the Secretary of Higher Education to the CEO Forum to help get acceptance and commitment to moving forward on some kind of collaboration. Under Indian law, Ahluwalia asserted, all kinds of foreign investment in education was possible short of giving a foreign university degree. He wanted to get the CEO Forum to "sanctify" support for enhanced cooperation and to establish a formal framework. Ahluwalia also noted that, in addition to support for the idea, he wanted the private sector to help pick up the costs of exchanging students or faculty between Indian and American universities.

¶14. (SBU) The Ambassador asked for clarification that newly established programs could be for-profit, but Ahluwalia explained that for-profit universities are not currently allowed in India, based on a Supreme Court decision. But, he observed, several states were taking the lead in developing new education efforts, such as the Indian School of Business in Hyderabad or Haryana Chief Minister Hooda's plan to build an education city north of Delhi. India's private universities and schools get around the obligation to be nonprofit institutions by establishing a trust or society that contained hidden fees or very profitable hidden lease and other costs passed from the nonprofit educational subsidiary to a holding company's real estate subsidiary.

¶15. (SBU) Ahluwalia explained that he had proposed to Bill Harrison, former CEO of JP Morgan and lead US CEO of the CEO

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Forum, that a subgroup be created to identify areas of educational collaboration. He had proposed that Infosys co-founder Nandan Nilekani be the Indian side lead, and had asked Dan Price for suggestions on a lead from the US side. Ahluwalia claimed that some collaborations are already underway between US universities and the Indian Institutes of Technology (IITs) and of Management (IIMs), India's premier universities. In fact, Ahluwalia asserted, it would not be a problem for US universities to identify an Indian university partner, where each side would send students for a part of the home program to study in the partner university and recognize the credits of each other towards the home degree.

¶16. (SBU) Embassy Public Affairs Counselor Schwartz asked whether Ahluwalia had ideas for specific deliverables that could be announced at the CEO Forum or proposed actions for the Education Working Group. Ahluwalia opined that there might be a limited deliverable, such as announcing that Nandan Nilekani and a US counterpart as co-chairs of a group to provide a report to both governments after the Indian elections. Schwartz asked whether a previously discussed idea, the creation of a junior faculty development program, perhaps funded by commercial offsets, could be kicked off at the CEO Forum working group meeting. Ahluwalia thought that was a good idea, adding that there was no doubt that a report from the CEO Forum working group to pinpoint the use of offsets would find a lot of takers and proposed that the idea

of offsets be cast as a note of suggestion, along with other suggestions, for review by Nilekani's group. (Comment: Ahluwalia's suggestion sidestepped Schwartz's proposal of obtaining GOI government approval for the use of offsets by simply incorporating it as an area of study for the newly formed group. End comment.)

¶17. (SBU) Schwartz suggested that another deliverable might be the establishment of a US - India Higher Education Council, which ECA Assistant Secretary Goli Ameri had agreed to fund during her recent trip to India. The Council would be housed for simplicity at the Fulbright Commission which has a bilateral Board of Directors and serve as a regular consultative body for educators, along with their supporters in government and industry. Ahluwalia thought that made "a lot of sense," and suggested that in advance of the CEO Forum meeting, it would be good to discuss the idea with MEA Joint Secretary Gaitri Kumar and CII leader Tarun Das.

DE-CONSTRUCTING DOHA

¶18. (C) Ambassador Mulford lastly noted to Ahluwalia that President Bush might wish to discuss with Prime Minister Singh the recent failed mini-Ministerial in Geneva on the Doha Round. Mulford asked Ahluwalia if he thought it worth raising, to which Ahluwalia replied that anything that the President felt should be raised would be fine and in fact the two had often exchanged views on Doha before. Further, Ahluwalia felt that if the US judged there was the possibility of movement, then a discussion at the Bush-Singh level would be especially useful. Ahluwalia noted that he had not yet received a full briefing from the Indian delegation, but that Joint Secretary Gopal Krishna was scheduled to come over during the week to discuss with him. However, Ahluwalia said that he had heard from the US National Security Council's Dan Price on the August meeting. Ahluwalia understood that the breaking point had been over the special safeguard mechanism (SSM). The Indian view, Ahluwalia believed, was that the 40% increase in imports as the threshold trigger for raising tariff rates was too high. As an economist, Ahluwalia opined, he didn't understand why the percentage of imports had been used. More relevant, he asserted, was the size of imports to the economy. The larger the importance of imports to the economy, the more important a small increase in imports was.

¶19. (C) Ahluwalia further offered that his limited understanding from the Indian side was that U.S. Trade Representative (USTR) Susan Schwab had hardened the US position on SSM and would not consider a compromise proposal that would have phased in an increase in the import increase trigger. The Ambassador quickly countered that the US perceived that India had hardened its stance on SSM after Commerce Minister Nath had returned to Geneva from the July

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21 Confidence Vote in the Indian Parliament, and that the change was unexpected. Ahluwalia replied indirectly, noting that India's view of the SSM was that since the main proposal for the Doha bound rates was so similar to the rates from the Uruguay Round that the SSM only applied to Uruguay products with no margins. The key question was what should be the trigger for raising tariffs under the SSM? Economic Counselor Davison explained that SSM was very important to US agricultural interests. Many of them felt that without the SSM, the US concessions on agriculture were too much. They felt the overall package would not have resulted in increased and predictable access to Indian markets.

¶20. (C) As the meeting drew to a close, Ahluwalia reiterated that he agreed with the Ambassador that the President and Prime Minister should discuss Doha at their meeting. Ahluwalia thought there was maybe a communication issue that could be addressed. The Indian government, he assured the Ambassador, was not taking the view that there was nothing

there at Doha for India. If there are small points where re-thinking and clarification could be made, and USTR Schwab and Minister Nath were to meet again before the President-PM meeting, then it would be useful to know what the US needs are. If it is just this "SSM thing" of choosing between either no SSM until 40% or creating a lower, graduating trigger, Ahluwalia concluded, then it did not seem to be a major difference.

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